

UNITED STATES OF AMERICA  
POSTAL RATE COMMISSION  
WASHINGTON, D.C. 20268-001

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POSTAL RATE COMMISSION  
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Before Commissioners:

Edward J. Gleiman, Chairman  
George A. Omas, Vice-Chairman;  
Dana B. Covington, Sr.; Ruth Y. Goldway;  
and W.H. "Trey" LeBlanc III

Postal Rate and Fee Changes

Docket No. R2000-1

NOTICE OF INQUIRY No.1 CONCERNING BASE YEAR DATA

(February 2, 2000)

On January 12, 2000, the United States Postal Service submitted a request for a Recommended Decision on changes in rates and fees and in certain mail classifications. The Postal Service's request was noticed by the Commission in Order No. 1279, issued January 14, 2000, which, among other things, set a prehearing conference for February 16, 2000.

Based on a preliminary review of Postal Service's filing, it appears that FY 1998 data are predominantly used to support the Request, even though FY 1999 ended four months before the Postal Service submitted its Request. The Commission issues this Notice of Inquiry (NOI) early in this proceeding for the purpose of affording the Postal Service and the participants an opportunity to address the need for FY 1999 data, and how such information might be used by participants and the Commission in this case.

Introduction The Commission's rules prescribe in detail the information the Postal Service is required to submit in support of its formal rate requests. See 39 C.F.R. §§ 3001.51 *et seq.*, and, in particular, Rule 54 which identifies the general and specific contents of a formal request. As a general matter, these rules are designed to provide, at the outset of a proceeding, "such information and data . . . necessary and

appropriate to fully inform the Commission and the parties of the nature, scope, significance, and impact of the proposed changes and adjustments in rates or fees . . . .”<sup>1</sup> Rule 54(f)(1) requires the Postal Service to utilize as a base year for its projections “the total actual accrued costs during the most recent fiscal year for which they are reasonably available.”

**Base Year Data** Generally, the Postal Service employs FY 1998 as a base year in this proceeding. For example, Postal Service witnesses generally use FY 1998 data when analyzing costs. See Tayman (USPS-T-9, at 11), Meehan (USPS-T-11 at 5-8), Bozzo (USPS-T-15 at 1 *et seq.*), Degen (USPS-T-16 at 2 *et seq.*), Van-Ty-Smith (USPS-T-17 at 20 *et seq.*), and Smith (USPS-T-21 at 5 *et seq.*). Similarly, its rate design witnesses use FY 1998 billing determinants as a basic input in developing proposed rates. For example, witness Plunkett indicates test year parcel post volumes were “distributed according to FY 98 Billing Determinant proportions.” (USPS-T-36, Attachment D). See *also* Fronk (USPS-T-33 workpaper at 7), Robinson (USPS-T-34, Attachment A at 1, 4, and 7), and Moeller (USPS-T-35, Appendix 1 at 1). In addition, the Postal Service’s revenue requirement witness, Tayman, employs FY 1998 as the base year for cost analysis, although “[a]ctual FY 1999 revenues of \$62.755 billion were used in this filing.” Tayman (USPS-T-9 at 11).<sup>2</sup> In contrast, volume projections are based upon Postal Fiscal Year 1999, which began September 12, 1998 and ended September 10, 1999. Tolley (USPS-T-6 at 3).

**Docket No. R97-1** In its Recommended Decision in Docket No. R97-1, issued May 11, 1998, the Commission recommended changes in rates, fees, and classifications. The Board of Governors, appropriately, deferred the effective date of the recommended changes until January 10, 1999. In addition to increasing revenues, the Commission’s rate recommendations altered the rate relationships among various

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<sup>1</sup> 39 C.F.R. § 3001.54(a).

<sup>2</sup> In addition, witness Tayman also relies on the FY 1999 Revenue, Pieces, and Weights report dated November 11, 1999. *Id.* At Exhibits USPS 9C and 9D.

presort categories in First-Class and Standard A mail. In addition, the Commission recommended certain new rate categories and classification changes, including:

- extending First-Class letters to include items weighing up to 13 ounces;
- adoption of delivery confirmation service for Priority Mail;
- adoption of altered presort tiers applicable to Regular, Nonprofit, and Classroom Periodicals;
- adoption of volume based discounted rate categories for Parcel Post origin Bulk Mail Center mail, (OBMC), destination Sectional Center Facility mail (DSCF), destination Delivery Unit mail (DDU), and a discounted rate for Standard B barcoded parcels;
- elimination of the single-piece Standard A subclass; and
- adoption of a residual shape surcharge for non-letter and non-flat Standard A mail.

Inquiry As a general matter, using more recent data is the preferred basis for developing future rates. Absent intervening changes, use of FY 1998 as a base year might not, of itself, be problematic, although there is always a concern that three-year old data can be obsolete. However, use of FY 1998 data not only necessitates estimating three fiscal years, 1999, 2000, and the test year, 2001, but also fails to capture the actual effects of the Commission's recommendations in Docket No. R97-1, including, most critically, costs and 1999 billing determinants that reflect actual usage of existing rate categories.<sup>3</sup> This is not to imply that the Postal Service's estimates are unreasonable or that the Commission has prejudged Postal Service's filing in any way. The Commission cautions that it has made no substantive judgments regarding the Postal Service's filing. By the same token, based on its preliminary review of the Postal Service's filing, the Commission is concerned that the absence of information on FY

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<sup>3</sup> Postal Service witnesses make adjustments to FY1998 data in recognition of classification changes. See, e.g., Robinson (USPS-T-34 at 11). At a minimum, actual FY1999 data may confirm the appropriateness of such adjustments.

1999 costs, billing determinants, and related data has potentially important implications for test year rates which could be mitigated if such data were available.<sup>4</sup> To that end, we note that “[f]inal, audited FY 1999 data were available very shortly prior to the filing of Docket No. R2000-1.”<sup>5</sup>

Important FY 1999 data include subclass and service cost information by cost segment and component, and billing determinant data for individual rate categories. To be most useful these data would have to be provided with the same level of supporting detail as is contained in the original filing. For example, the 1998 cost segments and components information is supported by USPS-T-11 Workpaper A (Base Year 1998 Reports) and Workpaper B (Base Year 1998 Cost Segments Reports).

The Commission reminds participants of the importance, from a technical standpoint, of having corresponding cost and billing determinant data. Availability of both types of information for the same time period is important, since rate and worksharing characteristics of mail directly influence the cost of that mail. A partial update with only cost data, for example, might not produce more reliable results since the data would not be directly comparable.

The Commission is aware that use of FY 1999 CRA unit cost and RPW billing determinant data is almost equivalent to establishing FY 1999 as the base year in Docket No. R2000-1. This represents a much larger-scale updating for recent events than has been performed in prior rate proceedings. The Commission also recognizes, and parties should be aware, that it is likely the FY 1999 data at issue may not meld effortlessly into the Postal Service’s filing. Updating the base year is largely a mechanical process, but it is probable that some adjustments would have to be made to integrate FY 1999 data.

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<sup>4</sup> For example, rate levels and discounts for major rate categories may not reflect costs incurred or customer usage, causing projections of revenues or revenue requirements to be too high or too low.

<sup>5</sup> USPS-T-9 at 11. Witness Tayman indicates that such data “were not available sufficiently in advance to be incorporated fully into cost estimating procedures.” *Ibid.*

The Commission seeks interested participants' comments concerning the desirability of utilizing FY 1999 data. Such comments should reflect accurate knowledge of the availability of that data. Therefore, on or before February 14, 2000 the Postal Service should indicate when the FY 1999 Cost and Revenue Analysis Report, together with its supporting cost data, and the FY 1999 billing determinants will be available, assuming no extraordinary efforts are made to develop this information expeditiously. In addition, the Postal Service should indicate when this FY 1999 data could be available if the Service were to devote its resources to the most rapid preparation of this information.

Participants should be prepared to discuss matters raised by this NOI and the Postal Service Response thereto at the February 16, 2000 prehearing conference.<sup>6</sup> All participants then will have the opportunity to provide written comments on the implications of this situation, and its impact on the procedural schedule, on or before February 23, 2000.

By the Commission  
(SEAL)



Margaret P. Crenshaw  
Secretary

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<sup>6</sup> As a reminder, the Postal Service response will be posted on the Commission's website ([www.prc.gov](http://www.prc.gov)) for review and downloading.